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Deposited in DRO:

22 August 2017

Version of attached file:

Accepted Version

Peer-review status of attached file:

Peer-reviewed

Citation for published item:

Painter, J. (2017) 'Why we need to talk about money.', Soundings : a journal of politics and culture., Summer 2017 (66). pp. 34-39.

Further information on publisher's website:

<https://www.lwbooks.co.uk/soundings/66/election-2017-roundtable>

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Why we need to talk about money

Joe Painter

After a succession of apparent victories for the populist right, the British general election on 8 June has been hailed as something of a turning point, even perhaps as the death knell of neoliberalism and its unlovely offspring, austerity. There was certainly much to cheer: the collapse of UKIP, the Conservatives left without a parliamentary majority and in increasing disarray, and the popularity of a Labour manifesto that sought to break decisively with some of the orthodoxies that have dominated political discourse since the Thatcher era.

In at least one respect, however, the official positions of all the principal parties stuck to an orthodoxy so embedded that it is taken as an unchallengeable given by politicians from across the political spectrum, broadcasters, commentators, columnists, think tanks, academics and probably by most voters. This orthodoxy is represented by a variety of code words and political clichés. Some are serious-sounding: ‘we must live within our means’, ‘we will deliver sound public finances’, ‘balancing the books’, ‘government borrowing must be reduced’. Others are more jokey. The recent austerity era has been bookended by two such seeming flippancies. The first was the note left after the 2010 General Election by the out-going Labour Chief Secretary to the Treasury, Liam Byrne, for his successor, which read ‘I am afraid there is no money’. (Byrne has since said he deeply regrets writing it.) The second is the repeated appearance in the 2017 election campaign of the ‘magic money tree’, or rather of the idea of its non-existence. Fittingly, this meme reached its zenith (or nadir) when, on live TV, prime minister Theresa May patronisingly explained to a nurse whose pay had not increased for eight years that ‘there isn’t a magic money tree that we can shake that suddenly provides for everything that people want’. With hindsight, this moment epitomised the failing Conservative campaign, revealing May’s lack of empathy and awkwardness. It also licensed a torrent of satire, with magic money trees sprouting all over social media to pay for corporate tax cuts, nuclear weapons, high speed rail and repairs to Buckingham Palace. Then, following the election, which left May eight seats short of an outright majority, the government agreed to one billion pounds of additional public expenditure in Northern Ireland to secure the support in parliament of the Democratic Unionist Party. Money might not grow on trees, but it appears that it can be found in abundance when political circumstances dictate.

And that should not be surprising. As heterodox economists such as Richard Murphy and Ann Pettifor point out, governments of sovereign states with their own currencies can indeed create money at will - and they do.¹ Most obviously, governments print banknotes and mint coins, but in wealthy countries notes and coins represent only a very small proportion of the money in existence (about 3 per cent in the UK). The vast majority of money exists only as stored information: as hand-written or typed entries in ledgers and account books in the past and today as digital records on computer servers. Moreover, all this money, including the physical notes and coins, is debt. Every British banknote carries the phrase ‘I promise to pay the bearer on demand’ - in other words the note represents an obligation owed by the issuer to the holder, that is, a debt. Electronic money is also debt. Every time we buy something using a credit card the issuing bank creates new money to finance the transaction. The same thing happens whenever an individual or a business takes out a loan. If my bank

makes a loan to me of £5000 I can immediately spend it - there is £5000 more in the economy that did not exist the day before the loan was made. In fact most money is created privately by banks, albeit under licence from the government. Given the importance of money and the potentially disastrous consequences of poor lending decisions, the regulation of private banking is one of the most important functions of any government.

As well as licensing private money (debt) creation, the government can create public debt with which to finance public expenditure by issuing government bonds. Because government bonds are repayable in the currency issued by the Bank of England there is no possibility of the government defaulting on the debt, which is thus exceptionally secure. Governments can, though, default on debts incurred in currencies which they do not themselves issue: the position of the Greek government is thus fundamentally different in this respect to that of the British government, since the authority to issue Euros is vested in the European Central Bank, rather than the Bank of Greece. The central bank can also re-purchase government bonds by issuing new money - the process known as quantitative easing (QE).

As all money is debt, any net reduction in debt represents a net reduction in the amount of money in circulation. And since the circulation of money is what enables much economic activity to take place, generating employment, incomes, profits and the taxes on [all of](#) them, reducing total debt (public and private) is not the self-evidently sensible economic strategy that mainstream economists, and most politicians, think-tanks and media commentators take it to be. If this seems counter-intuitive, consider what happens if I win the lottery and use the proceeds to pay off my mortgage: both my lottery winnings and my mortgage disappear. The money they represented no longer exists and it cannot be used to buy goods and services (which would create demand, boost employment and fund tax revenues to pay for public services). Granted, I now own the house (a capital asset), which I can live in, but I was already living in it before I won the lottery, and I cannot spend the value the asset represents unless I re-mortgage (which would put me back to where I was).

To be sure, large swathes of economic activity are not monetised and so do not depend directly on the level of debt. Unpaid housework, caring for children and people who are disabled, sick or elderly, growing food for our own consumption, making things for our own use and mending them when they break or wear out, entertaining and educating ourselves and each other, are all activities that contribute greatly to human well-being and fulfilment without necessarily involving monetary exchange. But while all these activities are important and often necessary, many human needs - food, housing, health care and education chief among them - can currently be met [in full](#) only by spending money, whether publicly or privately. And since money is debt, ensuring there is enough money to meet them means ensuring there is enough debt.²

This perspective challenges the world-view that underpins almost all media discussion of public policy. That world-view takes it for granted that government borrowing is undesirable and should be reduced (eventually to zero), that public debt must be repaid, and that the government's ability to spend is therefore largely dependent on their ability and willingness to tax (both often assumed to be low). [These assumptions form part of what Stuart Hall and Alan O'Shea identified as 'common-sense](#)

[neoliberalism'](#).³ There are a number of variants of the world-view. The most prominent, popularised by Margaret Thatcher, sees the public finances as analogous to those of a household or family. As Mr Micawber put it in *David Copperfield*, 'Annual income twenty pounds, annual expenditure nineteen [pounds] nineteen [shillings] and six [pence], result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.' In this view, the government can spend no more than it can raise in tax. It assumes that the government can run out of money and that lax financial management on the part of the government will lead to bankruptcy. Both these assumptions are fallacious, though that does not mean that poor financial management is a good thing.

The political discourse associated with this world-view invokes a distinctive vocabulary and set of metaphors: 'the nation's purse strings', 'the national piggy bank', 'taxpayers' money' and 'maxing out the nation's credit card' feature prominently, alongside the gendered stereotype of the thrifty housewife (supposedly personified by Mrs Thatcher) and the figure of the Chancellor of the Exchequer as Scrooge (or occasionally as Father Christmas when there is an election in the offing). Other countries afflicted by neoliberalism have equivalents: think of Angela Merkel's idealisation of the 'schwäbische Hausfrau'.

An even more strenuously right-wing version of this world-view sees taxation for collective provision as inherently undesirable. Thus environment minister Michael Gove argues that student fees are justified because: 'It's wrong if people who don't go to university find that they have to pay more in taxation to support those who do.' For some on the right, taxation is a form of legalised theft, a view bolstered by the widespread and almost entirely unquestioned use of the term 'taxpayers' money', rather than alternatives such as 'citizens' money', 'public money', 'government money', 'the nation's money', 'the community's money' and so on.

The discourse of 'sound public finances' and 'balancing the books' is nowadays just as entrenched on the centre left. Here there is at least an acceptance that borrowing for long-term infrastructural investment can be legitimate and that balancing the books should take place over the course of an economic cycle; and that fiscal policy can reduce the volatility of economic activity, as fiscal deficits during economic downturns (to support demand) are balanced by surpluses in years of plenty (to prevent overheating). Such thinking nevertheless still implicitly treats the public finances like those of a household - you run up an overdraft when times are tough, and then pay it back when things improve. From a centre-left perspective there is also - at least in principle - flexibility about the balance in fiscal policy between taxation, borrowing and expenditure. Taxation is not seen as inherently undesirable, but as simultaneously a means of macro-economic management (tax cuts stimulate the economy, tax rises dampen economic activity down), as a mechanism of redistribution, and as the source of funds to finance valued public services. In practice, however, the Labour Party, the Scottish National Party and the Liberal Democrats have all sought to avoid being portrayed as favouring either general tax increases or increased public borrowing. During the election campaign, shadow chancellor John McDonnell was at pains to emphasise that Labour's commitments were carefully costed and fully funded (in stark and ironic contrast to the lack of costings in the Conservative manifesto). In terms of political tactics McDonnell was surely right, given the ubiquity of the household metaphor for public finances and the

likelihood that media would pounce on anything that could be viewed as financial ill-discipline.

According to Richard Murphy, a fundamental flaw in all these variations of the dominant world-view is that they assume that taxation pays for public expenditure (either immediately or by funding future debt repayments). They treat money as a scarce commodity, rather than as a socially created and regulated mechanism for enabling exchange. Instead, Murphy argues, it is expenditure that allows for taxation, not the other way round.⁴ Governments can create new money at will to finance their activities, and doing so will not lead to increased inflation until the economy is operating at full capacity (with full employment). Murphy's case is compelling, but, because of the almost universal adoption of the household metaphor, it is counter-intuitive. If there is to be a decisive break with austerity policies, underpinned as they are by the doctrine of balancing the books and the narrative that money is scarce, then new narratives and (non-magical) metaphors are urgently required.

Acknowledgement

Many of the ideas in this article are drawn [with his permission](#) from Richard Murphy's *Tax Research UK* blog (<http://www.taxresearch.org.uk/Blog/>), which is essential reading on this topic. However, responsibility for any shortcomings in the arguments presented here rests with the author.

[19782042](#) words ([excl. notes](#))

¹ Richard Murphy, *The joy of tax: how a fair tax system can create a better society*, Bantam Press 2015. Ann Pettifor, *The production of money: how to break the power of bankers*, Verso, 2017.

² Richard Murphy, 'Why we need more national debt', *Tax Research UK* blog, 2017: <http://www.taxresearch.org.uk/Blog/2017/07/02/why-we-need-need-more-national-debt/>

³ Stuart Hall and Alan O'Shea, 'Common-sense neoliberalism', *Soundings*, 55, 2013.

⁴ Richard Murphy, 'We can afford public sector pay rises and don't need to increase tax to pay for them', *Tax Research UK* blog, 2017: <http://www.taxresearch.org.uk/Blog/2017/07/04/we-can-afford-public-sector-pay-rises-and-dont-need-to-increase-tax-to-pay-for-them/>